

EXECUTIVE SECRETARIAT

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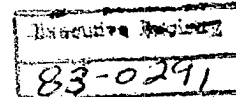
Executive Secretary
1/17/83
 Date

3637 (10-81)

Not referred to DOC. Waiver applies.



THE SECRETARY OF COMMERCE
Washington, D.C. 20230



JAN 17 1983

Not referred to DOC. Waiver applies.

MEMORANDUM FOR Members of the Export Administration Review Board

SUBJECT: January 17 Meeting Agenda

There will be three items on the agenda for this meeting of the EARB:

- 1) PRC Hybrid computer case;
- 2) United States export control policy toward the PRC;
- 3) Senator Garn's proposal for an Office of Strategic Trade.

You should have already received a paper on item 1. The papers for items 2 and 3 are attached.

Secretary of Commerce

Attachment



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OPTIONS PAPER ON U.S. POLICY TOWARD CHINA

Issue

Should the U.S. Government consider clarifying or changing our policy toward China?

Background

Since normalization of relations with China in 1979, we have gradually liberalized our export control policy toward China, beginning with the approval of selected technologies not previously exportable to China. In March 1980, President Carter placed China in a Country Group of its own (Group P), separating it from the USSR and other communist countries. This categorization, however, was not defined until President Reagan's directive of June 1981, which established a predisposition of approval for cases for China at approximately twice the level approvable for the Soviet Union prior to the Afghanistan invasion. At our urging, COCOM also informally adopted a similar China differential at this time.

The current "two times" policy is a compromise between a number of conflicting approaches toward China ranging from: 1) accord China the same treatment as the USSR; 2) be extremely cautious in our aid to China's industrial modernization efforts lest we improve too quickly China's strategic military capabilities; 3) use our advanced technology as a "carrot" to build a favorable relationship with China; and 4) determine that China poses no threat to U.S. national security and treat them as a Free World country.

These conflicting approaches have resulted in a struggle over the implementation of the China policy. (Even following Judge Clark's clarification of the China policy on May 6, 1982, agencies differ on the interpretation of the terms "two-times policy," "predisposition for approval," and "significant risks to national security.") Some have sought to demonstrate major risks to U.S. national security at the lowest technical level above that approvable for the USSR. Almost any piece of advanced equipment is claimed to make a demonstrable contribution to Chinese capabilities in the four special mission areas: nuclear weapons and their delivery systems, electronic warfare, anti-submarine warfare, and intelligence gathering. Others challenge those assertions and continue to seek treatment for China similar to that accorded India, but within the multilateral (COCOM) controls framework, or even to place them in the Free World category.

As it currently stands, the "two times" China policy continues to cause confusion among U.S. agencies. The Chinese have also been greatly disappointed with the slow progress in the availability of high technology products and processes. The Chinese had expected normalization of relations to produce a greater liberalization in our policy, and continue to regard access to dual use technology as critical to their industrial and military modernization. They argue that there exists an incongruity between our stated policy of support for a secure, friendly and modern China and our export

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control policy which places China in the least favorable position of all friendly non-aligned countries, such as India and Yugoslavia. India, they point out, has much warmer relations with Moscow as well as stronger technological ties; yet we treat India much more favorably than we do China.

POLICY OPTIONS FOR CHINA

- I. Further Define Standards Within Current Policy - Propose no change in basic policy, but clarify the case-by-case review by defining technical guidelines for each of the commodity categories on the CCL (standards for 15 of the 41 categories have interagency agreement) and identifying those items that entail a major risk to national security because they impact direct and demonstrably on the four mission areas.

Pro: Would help minimize interagency disagreements, speed processing and help clarify for U.S. exporters and the PRC, at the outset, what can be exported; would represent an improvement only if interagency agreement could be reached within a limited period of time.

Con: May not go far enough to convince PRC that our policy has been liberalized.

- II. Further Liberalize PRC's Status- Change the licensing policy to approve cases for China similar to Free World category countries (e.g., Yugoslavia, W. Germany, U.K.), but continue to keep China in its separate country category as a proscribed country. Export licenses would continue to be required but under an approval standard similar to Free World category countries. Unlike Free World category countries, however, China would still be kept under multilateral (COCOM) controls, with applications going to DOD for review. Also, DOD would retain veto power over any case for the PRC, but decisions for denial would be based only on potential for diversions to the Soviet Bloc.

Pro: Liberalizes policy, but the COCOM and licensing process would be kept in place to monitor U.S. technology acquisitions by the PRC.

Con: Chinese military and industrial modernization would be advanced; could still entail delays in processing since it requires DOD review.

- III. Treat the PRC as a "Free World" Category Country - Take the PRC out of its proscribed country category and move it into the Free World country category. This would mean that most technical data would not require a license. Shipments of goods and data requiring a license would be reviewed using the same criteria as for other Free World countries (diversion). Negotiate with other COCOM countries to drop multilateral controls on China. DOD loses veto power over cases to the PRC.

Pro: Should satisfy Chinese desires to be treated as a friendly, non-aligned country.

Con: Chinese military and industrial modernization would be advanced; significantly reduces ability to monitor U.S. technology acquisitions by the PRC.